

7.16.00.00 - RENT DETERMINATION

7.16.01.00 General

A fair market rent determination is an estimate of the amount of rent which a parcel would command in the open market, if offered under the terms and conditions typical of the market for similar properties. The fair rent for property for which there is no relevant market shall be estimated by any reasonable method that is fair and equitable. The justification for use of such method and a full explanation of the rationale on which the method is based will be set forth. The following process will be followed for both residential and nonresidential fair market rent determinations. Property management may prepare the residential fair market rent determinations in accordance with Right of Way Manual Sections 11.04.02.00, 11.05.01.00, and 11.06.02.00.

The Appraisal Branch prepares, reviews, and approves fair market rent determinations for all nonresidential properties except as noted in Chapter 11 Property Management.

This service is provided upon written request from Property Management. These requests should be scheduled so as to give Appraisals as much lead time as possible, and will include the following information:

- A map of the property.
- Parcel number, county, route, and post mile (P.M.); kilometer post (KP) and property address.
- Improvements that belong to the tenant and should be excluded from consideration.
- Special items on the property, such as machinery or equipment. An inventory should be available if needed.
- Whether construction of improvements on the property will be permitted.
- Term of the proposed lease and estimated length of time property will be available for rent.

Rent determinations will be updated upon written request from Property Management.

Rent Determinations will be rounded to the nearest \$10.00. (Example: A fair market rent estimate of \$545 will be rounded to \$550.)

7.16.02.00 Content

Fair market rent shall be based on the most reasonable highest and best use, taking into consideration the term of the State's proposed lease. Other appropriate market-related factors shall also be considered in the rent determination.

The rent determination will be a specific estimated fair market rent. It will be based on current rents being paid in the area for comparable property. An analysis of the comparable rental and other market data supporting and leading to the appraiser's conclusion of fair market rent must be included in the report. The amount of analysis, number of comparables used, and the degree of documentation required should be in proportion to the value of the property to be rented.

Property Management will use the rent determination as a bench mark from which to reach the actual rental rate. This latter rate will be arrived at after any special adjustments which may be appropriate to that function's operation. It is important that the appraiser clearly indicate those items for which adjustments were made in arriving at the market rent.

Individual Rental Comparable Data Sheets shall be used, and should include the following information:

- Property identification
- Property description
- Condition and effective age of improvements, if any
- Use
- Rental rate, including escalation rate, if any
- Date rental rate established
- Terms, including who pays utilities, taxes, and insurance and any other recurring expenses
- Period of lease
- Names of data source
- Names of owner and tenant, if pertinent

All fair market rent determinations will include parcel maps. Improved properties will include pictures showing the improvements. In addition, an index map, comparable data map, and comparable data pictures are required for all rent determinations where fair market rent is \$1,500 per month or more. These latter three items are optional in Region/District approved rent determinations.

Rent determinations requiring HQ R/W approval will be submitted with a transmittal page (two copies) showing county and route, parcel number, and date of value. It will include the required signed recommendations for approval.

7.16.03.00 **Review and Approval Process**

The Review and Approval process is discussed in Section 7.01.16.00. The Senior who reviews and recommends the fair market rent determination cannot execute the resulting lease on the same parcel.

7.16.04.00 **Special Circumstances**

Occasionally, there will be requests for rent determinations for specific uses. In many cases, the property is already rented for some use consistent with the constraints the Department has imposed. This existing use may not be the most reasonable highest and best use. If the appraiser's analysis indicates there is a significant difference between the existing use and the most reasonable highest and best use, this should be pointed out in the report. Both a statement of the most reasonable highest and best use, and an estimate of the fair market rent under this use will be included. This will be in addition to the rent determination for the specific use as requested.

An example of this is a parcel which has a highest and best use as a parking lot. For special reasons, it may not be feasible or practical to raze the existing improvements and put it to this use. A request for a rental determination on the parcel as improved is appropriate, provided the most reasonable highest and best use is cited and the estimated fair market rent, on this basis, is also included.

7.16.05.00 **Nominal Value Nonresidential Rentals**

Many properties cannot be rented for more than nominal rental rates because of size, irregular shape, and/or location. Nominal rental for this purpose is defined as \$1,200 per year (\$100 per month) or less.

At the Region/District's option, the Appraisal Branch staff or the Property Management Branch staff may be used for rent determinations on nominal value nonresidential rentals.

In these cases, only a short letter-type appraisal is required. It should identify and describe the parcel, and summarize the data and analysis that leads to the appraiser's conclusion of fair market rent. The nominal rental conclusion should be stated as a specific rental amount. A map of the appraised property is required (8½" x 11" print is sufficient); photographs are recommended.

The rent determination should include a signed statement that the appraiser has personally viewed and inspected the parcel. The determination should also be signed by the function's Senior.

NOTES: